
Act 388 and the Minimum Guarantee

A Self Center Report

By

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And

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SUMMARY

Act 388 of 2006 provided relief to South Carolina homeowners from school property taxes, resulting in a substantial shift in state education funds among school districts. This report focuses on only one aspect of Act 388, the guarantee of a minimum of \$2.5 million per county in Act 388 funds. Counties whose school districts received less than a combined \$2.5 million were to receive supplemental tax relief to bring them up to that level. This supplemental tax relief came to \$20.4 million in 2011-12, which accounted for an average of 5.6 percent of all state funds distributed to 28 recipient school districts.

If the intent of the minimum guarantee was to ensure that poor school districts, whose residents paid their share of the increased sales tax to fund Act 388, received a fair share of the property tax relief funds, the intentions may have been appropriate but the vehicle was not. Act 388's minimum guarantee results in large sums per pupil in some low enrollment districts while providing no aid at all to districts equally in need of funding, most of them failing to qualify because they are poor districts in larger, multi-district counties.

State funding for education is normally distributed to districts, not counties, and student enrollment is an important consideration in the amount received. This paper examines the distribution of these supplemental funds on the basis of two relevant criteria not a part of the Act 388 minimum guarantee provision: the local tax base as a measure of the wealth of the district, and the number of pupils as a measure of revenue need. Funding and enrollment data used is for fiscal year 2011-12.

We defined poor districts as "poor" if their tax base was less than half the state average. Twenty districts qualified as poor on that definition in tax year 2011. Twelve of those districts, with an average assessed value of \$12,395 per pupil, received supplemental tax relief of \$232 per pupil on average in 2011-12. The other eight did not. Another 16 school districts that were not classified as poor, with an average assessed value of \$24,248 per pupil, did qualify for supplemental tax relief in 2011-12 and actually received more on average—\$342 per pupil—than the 12 poor districts.

Another important finding was the enormous range in supplemental tax relief per pupil in the 28 receiving school districts. McCormick received \$1,740 and Allendale \$1,472 per pupil in 2011-12. Five other districts received amounts ranging from \$625 to \$921 per pupil. Only two of these seven top beneficiaries of the minimum guarantee provision met our definition of being a poor district.

We offer four alternatives for modifying Act 388 of 2006 to effect a more equitable distribution of supplemental tax relief among school districts. The fundamental principle underlying all four alternatives is that funding should be per district, not per county, and that the distribution should be related to student population. Act 388's tax replacement funding to school districts would be unaffected by any of these four approaches to a modified minimum guarantee.

One approach (Option A) is to set a target minimum guarantee per pupil for total Act 388 funding and to use supplemental funding to bring districts up to that level. We used \$600 per pupil, which is approximately the median district level of Act 388 tax replacement funding in 2011-12. That would increase the state's cost by \$4.4 million, based on 2011-12 funding levels. Thirty-one districts would receive more funding, including 18 that are not currently eligible, while three would lose all supplemental funding and another 12 would lose some supplemental funding because they are already receiving more than \$600 per pupil in Act 388 tax replacement funding. The 42 districts with

supplemental tax relief under Option A would receive an average of \$166 per pupil in supplemental tax relief and \$600 per pupil in combined Act 388 tax relief.

Option B is identical to Option A except that it includes a hold harmless provision, so that no district would lose supplemental funding, at least initially. That approach would raise the cost considerably from the current \$20.4 million to \$34.4 million. Forty-six school districts would receive supplemental tax relief under Option B, with the average district receiving \$221 per pupil in supplemental tax relief and \$671 per pupil in combined Act 388 funding.

Option C is a variant of Option A that is revenue neutral. In this case the amount to be guaranteed per pupil would be determined by what the current level of funding for supplemental aid can support, which is \$567 per pupil, leaving the budgetary outlay the same at \$20.4 million. Approximately half the funding would be shifted from 19 school districts losing their supplemental tax relief to 24 gaining districts, including 15 districts that have not been receiving supplemental funds under current law. Thirty-nine districts would receive supplemental tax relief under Option C, with the average district receiving \$138 per pupil in supplemental funding and \$538 per pupil in combined Act 388 tax relief.

Option D is also revenue neutral, but accomplishes this goal by limiting the distribution of the \$20.4 million in Act 388 supplemental tax relief to the state's 20 poor school districts. This approach does not use this supplemental funding to provide a minimum guarantee of combined Act 388 funds for any school district, as do the other three approaches. Instead, Option D would share out the full amount of supplemental aid per pupil to poor districts only. Option D would provide \$386 per pupil in supplemental aid to each of the poor districts, giving them a combined average of \$947 from Act 388 funds. Eighteen school districts would have some or all of their current supplemental tax relief shifted to those 20 districts. Compared to Options A, B and C, Option D provides the average poor district with a much higher level of supplemental tax relief. However, Option D also allows three poor districts to receive supplemental tax relief despite tax replacement funding per pupil in excess of revenue neutral Option C's \$567 per pupil.

Funding that is distributed to some but not all school districts needs to go to those districts that qualify on the basis of some criterion of need and/or ability to pay. Need is measured by the number of pupils. Ability to pay is measured by the tax base. A modified formula for distributing supplemental funding would not eliminate all the shortcomings of Act 388, but it would be a step in the right direction for some of South Carolina's poorest school districts.

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ACT 388 AND THE MINIMUM GUARANTEE

Introduction

The primary purpose of Act 388 of 2006¹ was to provide relief to homeowners from school property taxes. In doing so, Act 388 also redistributed state education funds among South Carolina's school districts. Act 388 has had a substantial impact on the distribution of education funds to homeowners and the tax burden, as well as on the state budget as a whole. This report focuses on one particular consequence—the distributional effects on school district finances of Act 388's minimum guarantee of \$2.5 million per county (not per district) for homeowner tax relief.

While the intent of Act 388's minimum guarantee per county might well have been to provide additional revenue to poor school districts, the impact was very uneven. Many poor districts received little or no benefit from these supplementary funds. After documenting the impact of the minimum guarantee on individual school districts, we explore some alternatives that might be more equitable in certain poor districts, especially those located in counties with multiple school districts.

State aid to education in South Carolina has historically been distributed to school districts, most of it based in some way on the number of pupils in the district. Some state aid, such as Education Improvement Act (EIA) funds, is simply distributed on per pupil in average daily membership (ADM). Other state funds, especially the Education Finance Act (EFA), involve adjustments for other factors such as special needs students and the district's ability to raise funds from the property tax, as measured by the index of taxpaying ability.

Act 388 of 2006 introduced an entirely new way of distributing state funds to school districts based on property tax relief for homeowners. The additional state funds come from a one cent increase in the state's retail sales tax, the proceeds of which are deposited in and distributed from an earmarked account named the Homestead Exemption Fund. While Act 388 was designed to provide state-funded school property tax relief for homeowners, Act 388 also:

1. Altered the distribution of the property tax burden in the state between classes of property by eliminating taxes for school operations on owner-occupied residential property. Now, all other classes of property bear the full burden of the remaining school operating taxes, including rental, personal, commercial, and industrial property.
2. Altered the distribution of state funds to school districts in ways that (with some exceptions) favor property-rich districts over property-poor districts.
3. Distributed the increased state sales tax burden somewhat more evenly across school districts and taxpayers, including homeowners, renters, business and industry, and visitors.

¹ South Carolina, Act 388 of 2006 (http://www.scstatehouse.gov/sess116_2005-2006/bills/06actsp1.php).

4. Favored some poor districts (and some non-poor districts) over others through a minimum guarantee of \$2.5 million in residential tax relief payments per county.

Thus, the net effect of Act 388 was to redistribute the costs of providing public schools for our state's children from one group of taxpayers to another. Other reports address items 1, 2, and 3 in detail.² Here we focus on item 4, the minimum guarantee. Data used in this report is from the South Carolina Department of Revenue (Act 388 disbursement data) and the South Carolina Department of Education (pupil counts and other state funding).³

² Ellen W. Saltzman and Holley H. Ulbrich, *Act 388 Revisited*, A Jim Self Center on the Future Report, Strom Thurmond Institute, Clemson University, 2012; and John Salazar and Ellen W. Saltzman, *Act 388 and School Funding in Beaufort County, SC*, prepared for the Hilton Head Area Association of Realtors, Lowcountry and Resort Islands Tourism Institute, University of South Carolina Beaufort and Strom Thurmond Institute, Clemson University, 2013. Search publications in government and taxation at: <http://sti.clemson.edu>.

³ See South Carolina Department of Revenue, Residential Exemption Reimbursement reports by year at the Local Government Services web page: <http://www.sctax.org/lgs/default.htm> (current data provided by SCDOR staff); and South Carolina, Department of Education, District Revenue Information and District Expense Information at the Historical School District Finance Information web page: <https://ed.sc.gov/agency/cfo/finance/HistoricalFinanceData.cfm>.

The Minimum Guarantee

Act 388 payments to school districts are separated into two components: replacement (reimbursement) of school operating taxes formerly collected on owner-occupied residential property, and supplemental tax relief, which is also referred to as the “minimum guarantee.”

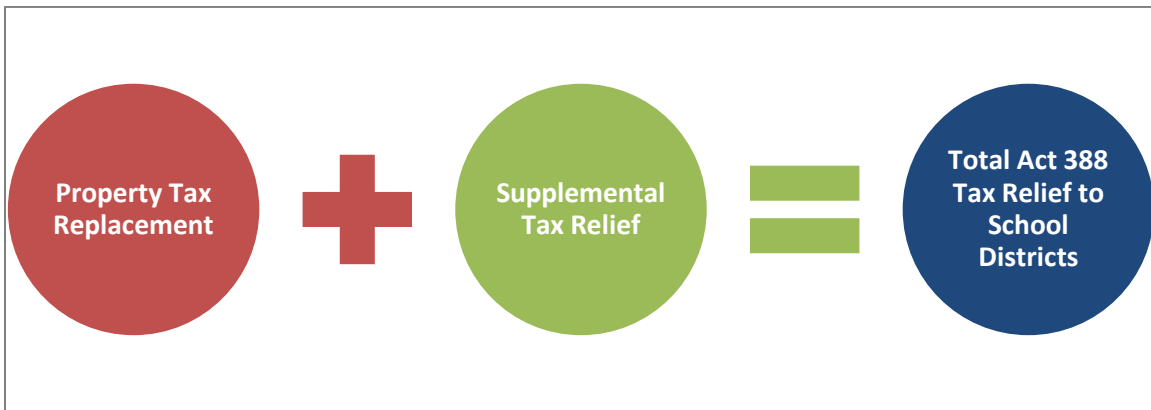


Figure 1. Act 388's minimum guarantee

How the Minimum Guarantee Works

Act 388's tax replacement funds are distributed on the basis of the property taxes that were collected on owner-occupied homes valued in excess of \$100,000 in 2006. This amount varied widely by school district, depending on the value of the local residential tax base, the tax rate for school operations, and the district's reliance on property taxes in its budget. After the first year, the replacement amount is adjusted annually for inflation and district pupil counts, but not for new home construction.

All districts receive at least some replacement funds from Act 388 because all districts levy property taxes for school operations. However, because the state was already funding property tax relief for the first \$100,000 of market value of owner-occupied homes, many districts with a limited number of high value homes received very little additional state funding from this provision of Act 388. Recognizing this disparity, lawmakers attempted to help those districts with the \$2.5 million minimum guarantee per county. For example, in fiscal year 2011-12 the Colleton County School District received \$1,708,372 in Act 388 tax replacement funds and \$791,628 in supplemental funding, a total of \$2.5 million for that countywide school district (Tables 1 and 2).

Thirty-one school districts in 21 counties qualified for \$30.1 million in supplemental funds when Act 388 was implemented in fiscal year 2007-08. The dollar amount of supplemental funding is not fixed, but depends on the size of the gap between regular Act 388 funding and the \$2.5 million for qualifying districts. As the normal Act 388 tax replacement portion grew over time with population and inflation, fewer counties qualified for supplemental funds. In 2011-12, 28 districts qualified and shared \$20.4 million. The average amount among qualifying districts was \$363 per pupil in 2007-08, dropping to \$308

per pupil in 2011-12 as there was a reduction in the gap between \$2.5 million and what some districts received from regular Act 388 funding.

If there is more than one district in a county receiving supplemental funding, each district receives its share based on the number of pupils. Data for intervening years is provided in Appendix A-1. Distributions to multiple districts within a single county were calculated by the authors using the fiscal year 135 day ADM. Actual supplemental distributions received by districts in multidistrict counties will depend on the pupil count used.

Table 1. Act 388 Supplemental Tax Relief to South Carolina School Districts

District	2007-08	2011-12	District	2007-08	2011-12
Abbeville	\$1,156,245	\$764,543	Edgefield	\$661,108	\$0
Allendale	2,182,411	1,992,971	Fairfield	555,883	52,640
Bamberg 1	1,102,824	931,149	Hampton 1	1,160,832	879,314
Bamberg 2	627,407	514,995	Hampton 2	518,270	354,934
Barnwell 19	316,676	203,942	Jasper	1,087,771	609,941
Barnwell 29	342,510	241,860	Lee	2,095,436	1,798,308
Barnwell 45	946,535	628,985	Marion 1	612,474	268,386
Calhoun	1,729,305	1,521,210	Marion 2	402,402	172,286
Chester	797,755	140,416	Marion 7	158,707	64,677
Chesterfield	730,569	0	Marlboro	1,775,140	1,212,412
Clarendon 1	205,073	89,412	McCormick	1,452,723	1,351,706
Clarendon 2	689,641	313,627	Saluda	1,538,944	1,300,844
Clarendon 3	278,077	126,743	Union	1,936,163	1,957,797
Colleton	1,543,744	791,628	Williamsburg	2,211,499	1,572,943
Dillon 1^a	182,777	n.a.			
Dillon 2^a	727,066	n.a.			
Dillon 3	331,455	141,875	Total	\$30,057,421	\$20,370,201
Dillon 4^a	n.a.	370,657	Median	\$730,569	\$442,826

Source: SC Dept. of Revenue, SC Dept. of Education. ^aDillon 1 and Dillon 2 merged into Dillon 4 beginning FY 2011-12.

Table 2. Act 388 Supplemental Tax Relief per Pupil in South Carolina School Districts, Ranked

District	2007-08	2011-12	District	2007-08	2011-12
McCormick	\$1,643	\$1,740	Clarendon 3	\$225	\$108
Allendale	1,412	1,472	Clarendon 1	225	108
Calhoun	1,085	921	Clarendon 2	225	108
Lee	858	837	Marion 7	215	101
Bamberg 2	731	658	Marion 1	215	101
Bamberg 1	731	658	Marion 2	215	101
Saluda	743	625	Dillon 4 ^a	n.a.	90
Union	429	467	Dillon 3	214	90
Hampton 2	439	368	Chester	140	27
Hampton 1	439	368	Fairfield	173	19
Williamsburg	418	349	Chesterfield	94	0
Marlboro	390	293	Edgefield	168	0
Barnwell 29	380	267	Dillon 1 ^a	214	n.a.
Barnwell 45	380	267	Dillon 2 ^a	214	n.a.
Barnwell 19	380	267			
Abbeville	339	252			
Jasper	356	195	Average	\$363	\$308
Colleton	256	135	Median	\$356	\$267

Source: SC Dept. of Revenue, SC Dept. of Education. ^aDillon 1 and Dillon 2 merged into Dillon 4 beginning FY 2011-12.

Flaws in the Minimum Guarantee: Uneven Benefits

Act 388's minimum guarantee involved good intentions by making some provision to direct extra state funds to poorer school districts. The authors of Act 388 were aware that poorer, smaller school districts would receive little revenue from Act 388 because they had relatively few owner-occupied homes valued at more than \$100,000. The primary relief provided by Act 388 only reimburses taxes on homes with a market value above that level, because earlier legislation had already provided property tax relief on the first \$100,000 of market value.

But the supplementary relief from the minimum guarantee also has some serious design flaws. First, only some—not all—small poor districts receive Act 388 supplementary funding. Second, supplementary funding levels per pupil are highly variable.

Poor School Districts

Act 388's minimum guarantee favors some small, poor school districts but not others. The law benefits small, poor counties with single school districts. For the most part, it does not benefit small, poor districts that are part of larger, multidistrict counties.

The remedy offered the state's poor, small school districts was a guarantee of \$2.5 million per county—not per district—in funding from Act 388's Homestead Exemption Fund (HEF). Specifically, if all the districts in a given county together receive less than \$2.5 million in property tax replacement from the HEF, those districts receive supplemental funds, also from the HEF, to make up the difference. This guarantee helped some poor districts but not others. In fact, many of the small, poor districts receiving

little or no help at all from Act 388's minimum guarantee are as poor—or are poorer than—those receiving more generous amounts.

What makes a school district poor? The language in Act 388 did not establish any specific criteria for defining poor districts, such as income, poverty or tax base levels. The legislation only stated that school districts in counties receiving less than \$2.5 million in Act 388 tax replacement funds would also receive supplemental funds to make up the difference. This provision covered some poor districts, to be sure, but not all.

In order to compare the impact of Act 388 funding provisions on poor and non-poor school districts, we had to identify poor districts in some way. Because Act 388 funding is related to local school property taxes, we defined poor school districts as those with an assessed property value per pupil less than half of the state average, or \$15,427 per pupil in tax year 2011. Using this definition, the state had 20 poor school districts in 2011-12. Overall, school districts in this group have smaller enrollments than the average district (Table 3).

Table 3. Assessed Value per Pupil in Poor South Carolina School Districts 2011-12

District	Pupils	A.V. Per Pupil	District	Pupils	A.V. Per Pupil
Anderson 2	3,616	\$14,139	Florence 2	1,169	\$11,606
Bamberg 1	1,415	11,944	Florence 3	3,477	13,741
Bamberg 2	782	15,082	Florence 5	1,409	8,809
Barnwell 19	762	12,747	Greenwood 51	956	4,260
Barnwell 29	904	12,165	Hampton 1	2,391	14,078
Barnwell 45	2,352	8,528	Hampton 2	965	15,425
Clarendon 3	1,172	7,728	Lexington 4	3,113	9,856
Dillon 3	1,582	10,278	Marion 1	2,652	14,156
Dillon 4	4,132	12,958	Marion 2	1,702	13,832
Florence 1	15,324	14,925	Spartanburg 3	2,840	13,282
Poor Average	2,636	\$11,977	SC Average	8,326	\$30,855
Poor Median	1,642	\$12,852	SC Median	4,145	\$19,322

Source: SC Dept. of Education. Note: Poor school districts defined by authors as those with assessed property value less than half of the SC average of \$15,427 per pupil in tax year 2011.

How did these 20 poor school districts fare under Act 388? All 20 districts received Act 388 tax replacement funds at varying levels per pupil based on the amount of tax revenue collected for school operations in tax year 2006. Twelve of those 20 poor districts also received supplemental funding under Act 388's minimum guarantee provision. But eight of the 20 poor districts received no supplemental funding. These eight districts were all located in counties with multiple school districts (Table 4).

In addition, 16 school districts that did not meet our definition of poor also received supplemental funding based on the county-level minimum guarantee. These 16 non-poor districts had an average assessed property value nearly twice that of the 12 poor districts with supplementary funding. They also received an average of \$110 more per pupil in supplementary tax relief than the poor recipients. Additional detail is provided in Appendix A-2.

Table 4. Distribution of SC School Districts Qualifying for Act 388 Supplemental Funding, 2011-12

School District	Poor	NOT Poor
YES District QUALIFIES for Act 388 Supplemental Funding	12 school districts	16 school districts
	Avg. assessed value = \$12,395 per pupil	Avg. assessed value = \$24,248 per pupil
	Avg. suppl. funding = \$232 per pupil	Avg. suppl. funding = \$342 per pupil
NO District DOES NOT QUALIFY for Act 388 Supplemental Funding	8 school districts	47 school districts
	Avg. assessed value = \$13,355 per pupil	Avg. assessed value = \$32,933 per pupil
	Avg. suppl. funding = \$0 per pupil	Avg. suppl. funding = \$0 per pupil

Source: SC Dept. of Revenue, SC Dept. of Education.

Per Pupil Funding

Act 388's arbitrary figure of \$2.5 million per county as a minimum guarantee for supplemental tax relief distributes very different amounts per pupil among the receiving districts. In particular, it results in very large amounts per pupil to some districts with low student enrollments.

McCormick County School District received \$1,740 per pupil and Allendale County School District received \$1,472 per pupil in Act 388 supplemental tax relief alone in 2011-12, while five other districts received amounts ranging from \$625 to \$921 per pupil. Only two of these seven districts met our criterion for being designated poor: Bamberg School District 1 and Denmark-Olar School District 2 of Bamberg County. Eleven of the remaining recipient districts received \$135 or less per pupil in Act 388 supplemental funding in that year (Table 2, above).

The wide range of Act 388 supplemental tax relief per pupil also gives it undue importance as a state funding source in some districts. Table 5 compares Act 388 funding—tax replacement and supplemental, separately and combined—with overall state aid in the 28 school districts receiving supplemental funding in 2011-12. Total state aid per pupil includes EFA, EIA, state grants, and other funds.

Act 388 supplemental tax relief accounted for 5.6 percent of total state aid to the 28 recipient districts in 2011-12. But as a share of total state aid, Act 388 supplemental funding alone ranged from a high of nearly 23 percent of state aid in McCormick to less than one percent in Chester and Fairfield. Statewide, supplemental funding was less than one percent of state aid on average in the state's 83 school districts.

Table 5. Act 388 Tax Relief and Total State Aid per Pupil in SC School Districts, 2011-12
(supplemental funding recipients only; ranked by supplemental tax relief per pupil)

District	Pupils	Poor District	Replacement PP	Supplemental PP	Act 388 Total PP	State Aid Total PP	Suppl. % of State
McCormick	777		\$1,478	\$1,740	\$3,217	\$7,709	22.6%
Allendale	1,354		374	1,472	1,846	8,405	17.5%
Calhoun	1,653		592	921	1,513	5,757	16.0%
Lee	2,148		327	837	1,164	6,298	13.3%
Bamberg 1	782	●	528	658	1,111	6,662	9.9%
Bamberg 2	1,415	●	453	658	1,186	6,288	10.5%
Saluda	2,083		358	625	982	5,520	11.3%
Union	4,192		129	467	596	5,291	8.8%
Hampton 1	965	●	420	368	728	6,422	5.7%
Hampton 2	2,391	●	360	368	787	5,699	6.5%
Williamsburg	4,508		206	349	555	5,488	6.4%
Marlboro	4,145		311	293	603	5,835	5.0%
Barnwell 19	904	●	325	267	572	5,301	5.0%
Barnwell 29	2,352	●	382	267	592	5,257	5.1%
Barnwell 45	762	●	305	267	650	5,633	4.7%
Abbeville	3,028		537	252	789	5,677	4.4%
Jasper	3,127		604	195	799	4,519	4.3%
Colleton	5,882		290	135	425	4,792	2.8%
Clarendon 1	1,172		327	108	641	5,485	2.0%
Clarendon 2	827		533	108	503	5,169	2.1%
Clarendon 3	2,900	●	395	108	435	4,974	2.2%
Marion 1	639	●	492	101	478	6,682	1.5%
Marion 7	2,652		377	101	594	5,205	1.9%
Marion 2	1,702	●	399	101	501	5,584	1.8%
Dillon 3	4,132	●	363	90	399	4,984	1.8%
Dillon 4	1,582	●	309	90	452	4,752	1.9%
Chester	5,287		446	27	473	5,161	0.5%
Fairfield	2,829		865	19	884	5,320	0.3%
Total/Avg*	66,189	12	\$401	\$308	\$709	\$5,455	5.6%
Median*	2,115	n.a.	380	267	622	5,504	4.9%
SC Total/Avg	691,054	n.a.	904	29	933	4,994	0.6%
SC Median	4,145	n.a.	591	0	710	5,263	0.0%

*Act 388 supplemental funding recipients only. Source: SC Dept. of Revenue, SC Dept. of Education.

Proposed Modifications to the Minimum Guarantee

Act 388's minimum guarantee could and perhaps should be remedied without significantly impacting the main thrust of the legislation. We propose that two modifications be made to Act 388's minimum guarantee to improve equity in the distribution of these supplemental funds across poorer school districts. We present four options for implementing the recommended modifications to Act 388's minimum guarantee. Each approach offers a different outcome to receiving districts and a different impact on the state budget.

A Modified Minimum Guarantee

If one intention of Act 388 was to ensure that pupils in poorer districts were given a fair share of the funds raised from all over the state by the extra penny of sales tax, that method was not particularly effective. The following two proposed modifications to Act 388's minimum guarantee would improve equity in the distribution of these supplemental funds across poorer school districts (Figure 2).

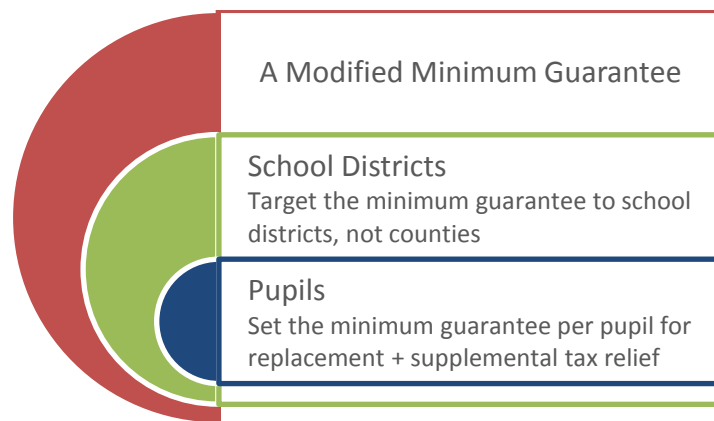


Figure 2. A modified minimum guarantee

Establish the modified minimum guarantee at the school district level.

This change would ensure that small, poor school districts in multidistrict counties qualify for supplemental tax relief on an equal footing with small, poor countywide school districts. Under the current minimum guarantee of \$2.5 million per county, the distribution of supplemental tax relief has been very unequal among these districts. In 2011-12, supplemental funds to districts ranged from a high of \$1,740 per pupil in McCormick to a low of \$19 per pupil in Fairfield.

Define the modified minimum guarantee in per pupil terms.

This change would ensure that all school districts receive at least the modified minimum guarantee per pupil in Act 388 tax replacement plus supplemental funds. With this approach, poor districts with low Act 388 tax replacement funding per pupil would receive the most supplemental tax relief per pupil. Eight poor districts received no supplemental tax relief from the Homestead Exemption Fund in 2011-

12, while 16 districts not meeting the definition of poor received supplemental funding (Tables 2 and 4, above).

Implementation Options for a Modified Minimum Guarantee

Below we discuss four options for implementing a modified minimum guarantee (Figure 3). All four options would provide some compensatory aid to the students and taxpayers of poorer school districts who pay the extra penny of sales tax but get a much smaller proportional share of Act 388's resulting property tax relief per pupil. The fiscal impact of implementing a modified minimum guarantee on individual school districts and the cost to the state will be governed by three factors:

1. The minimum guarantee per pupil,
2. The number of pupils in eligible school districts, and
3. Whether or not school districts currently receiving Act 388 supplemental tax relief are held harmless from a drop in funding resulting from changes to the distribution formula.

Act 388's tax replacement funds to school districts would remain unaltered by implementation of a modified minimum guarantee for supplemental funding.

Option A: Equitable Distribution	Option B: Equitable Distribution with Hold Harmless	Option C: Revenue Neutral	Option D: Revenue Neutral Poor Districts Only
<ul style="list-style-type: none">• Minimum guarantee per pupil set at Act 388 median tax replacement funding per pupil.• Some districts gain funding, some lose.• Fiscal impact on state budget depends on level of guarantee.	<ul style="list-style-type: none">• Option A <i>plus</i>• No districts lose supplemental tax relief under current law.• Option B will have the largest fiscal impact on the state budget.	<ul style="list-style-type: none">• Minimum guarantee determined by the amount per pupil that can be supported by the current level of supplemental tax relief.• Current state budget impact unchanged.	<ul style="list-style-type: none">• Option C <i>except</i>• Supplemental tax relief distributed to poor districts only.• Current state budget impact unchanged.

Figure 3. Implementation option for a modified minimum guarantee

Option A: Equitable Distribution

Equitable Distribution Option A would establish an annual minimum guarantee per pupil of Act 388 funding—tax replacement plus supplemental—for all school districts. The estimated additional state budgetary impact of Option A is \$4.4 million based on a minimum guarantee of \$600 per pupil for all school districts in 2011-12.

A key element of both Options A and B is the minimum guarantee per pupil. Figure 4 illustrates how a school district based minimum guarantee per pupil would work. Setting the minimum guarantee on a per pupil basis eliminates the need for any separate determination of poor districts for purposes of receiving Act 388 supplemental tax relief. It would also eliminate excessively high supplemental tax relief per pupil in districts with low enrollment. Under current law, the minimum guarantee is set at an arbitrary level of \$2.5 million per county, which benefits some small poor districts but not others. It also results in a wide range in the amount of supplemental tax relief per pupil received by individual school districts (Tables 4 and 5, above).

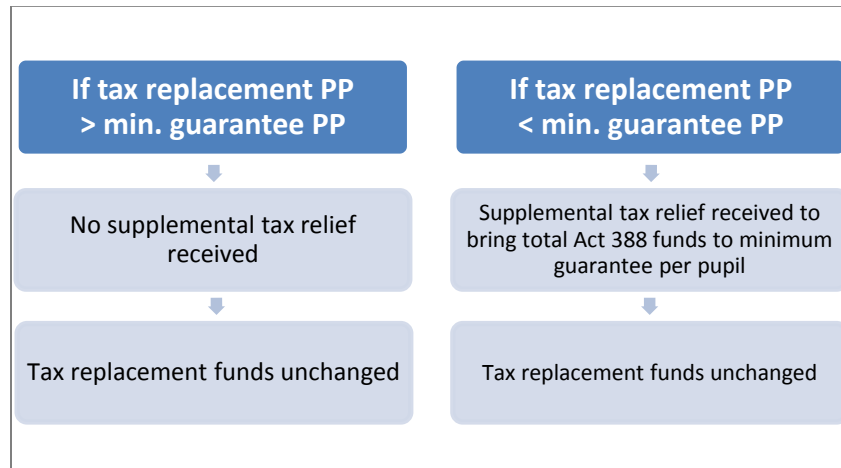


Figure 4. How would a modified minimum guarantee per pupil work?

For Option A, we set the minimum guarantee at the level of the median district's Act 388 tax replacement funding per pupil. In fiscal year 2011-12, this figure was about \$600 per pupil.⁴ This change would ensure that all districts with low tax bases—and consequent low levels of Act 388 tax replacement funding—receive Act 388 funding at a level close to that of the median district in the state. School districts currently receiving supplemental tax relief that brings their combined Act 388 funding above the minimum guarantee would lose that additional funding.

Figure 5 illustrates how a modified minimum guarantee of \$600 per pupil would be implemented at the school district level. For example, Greenville County Schools received \$734 per pupil in Act 388 tax replacement funds in 2011-12, and no supplemental tax relief. With a modified minimum guarantee of \$600 per pupil in that year, Greenville County Schools would have continued to receive its \$734 per

⁴In 2011-12, the median school district in South Carolina received \$591 per pupil in tax replacement funding from Act 388's Homestead Exemption Fund. Union County School District had the lowest level of tax replacement funding at \$129 per pupil, and Beaufort County School District had the highest level at \$2,161 per pupil.

pupil in tax replacement funding and no supplemental tax relief because this amount exceeded the \$600 per pupil minimum guarantee.

On the other hand, Florence County School District 4 received \$391 per pupil in tax replacement funds in 2011-12, but received no supplemental tax relief because the five school districts in the county took in over \$2.5 million in tax replacement funding from Act 388. With a modified minimum guarantee of \$600 per pupil, this district would have received an additional \$209 per pupil in supplemental tax relief for total Act 388 funding of \$600 per pupil.

Using \$600 per pupil as the modified minimum guarantee, Option A would ensure that every school district in South Carolina received at least \$600 per pupil in total Act 388 funds, replacement plus supplemental, in that year. The minimum guarantee should be subject to the same annual inflation adjustment as the tax replacement funds.

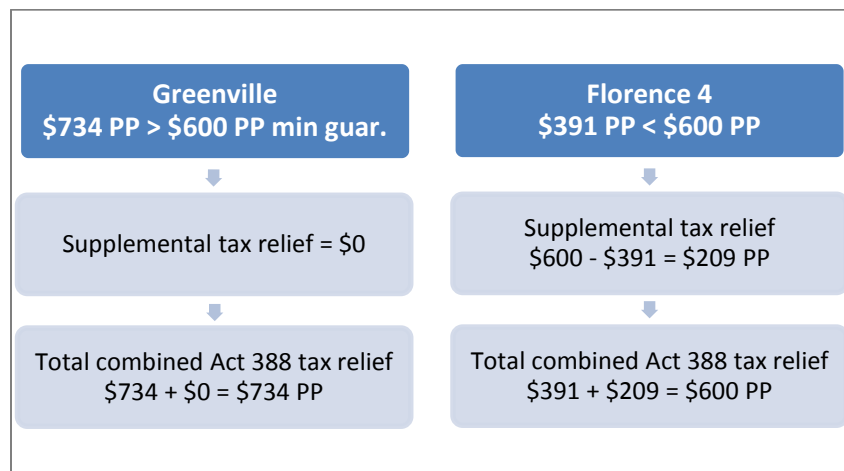


Figure 5. How would a modified minimum guarantee of \$600 per pupil work?

How would this change have altered the distribution of funds across districts in 2011-12? Under Option A, over twice as many school districts (31) would gain supplemental funding than would lose it (15). In addition, the total number of districts qualifying for supplemental funding would increase from 28 under current law to 43 (Tables 6 and 7). The average district in this group would have replacement tax relief of \$434 per pupil, supplemental tax relief of \$166 per pupil, and total Act 388 funding of \$600 per pupil.

These figures do not reflect the actual amount of redistribution among districts, however. A closer look reveals that of the 31 districts gaining funds under Option A, 13 districts would see their supplemental funding increased over current levels and 18 additional districts would gain supplemental funding that did not qualify for it under current law. Of the 18 districts that would be first time recipients of supplemental funding under Option A, six are also poor districts. Six districts, five of them newly eligible for supplemental funding, would gain more than \$200 per pupil.

Table 7. Option A: Estimated Change in Act 388 Supplemental Tax Relief

Gaining	Marion 2
Anderson 2*	Marion 7
Anderson 3*	Orangeburg 3*
Barnwell 19	Orangeburg 4*
Barnwell 29	Orangeburg 5*
Cherokee*	Sumter*
Chester	Union
Chesterfield*	Williamsburg
Clarendon 2	Losing
Clarendon 3	Abbeville
Colleton	Allendale
Darlington*	Bamberg 1
Dillon 3	Bamberg 2
Dillon 4	Barnwell 45
Florence 2*	Calhoun
Florence 3*	Clarendon 1
Florence 4*	Fairfield
Florence 5*	Hampton 1
Greenwood 51*	Hampton 2
Laurens 55*	Jasper
Laurens 56*	Lee
Lexington 2*	Marlboro
Lexington 4*	McCormick
Marion 1	Saluda

*1st time recipient

Table 6. Option A: Estimated Outcomes 2011-12

Minimum guarantee	\$600 per pupil
Net state budget increase required	+\$4.4 million
Districts with supplemental tax relief	43
Average tax replacement	\$434 per pupil
Average supplemental tax relief	\$166 per pupil
Average total Act 388 funding	\$600 per pupil
Pupils	149,083
Gaining Districts	31
1st time recipients	18
Prior recipients	13
Budget increase required	+\$14.0 million
Losing Districts	15
Retaining some original funding	12
Losing all original funding	3
Budget decrease required	-\$9.6 million

Note: Example based on 2011-12 funding levels.

Of the 15 districts that would lose supplemental funding under Option A with a \$600 per pupil minimum guarantee, most—12 districts—would retain some of their original supplemental funding. Only three school districts would lose all of their supplemental funding: Fairfield, Jasper, and McCormick. None of these districts meet our criterion of low assessed value per pupil that would have designated them as poor in 2011-12. Only seven districts would lose more than \$200 per pupil. Additional detail on all districts affected by Option A is provided in Appendix A-3.

For example, Option A's modified minimum guarantee of \$600 per pupil in combined tax replacement and supplemental funding would provide Anderson School District 3 with an additional \$232 per pupil, given that district's comparatively low \$368 per pupil in tax replacement funding in 2011-12. Anderson School District 2, with \$544 per pupil in tax replacement funding, would receive \$56 per pupil in supplemental funding. Neither district receives Act 388 supplemental funding under current law.

On the other side, the Calhoun County School District would lose \$913 per pupil in supplementary tax relief under Option A's modified minimum guarantee. In 2011-12, the district received \$592 per pupil in tax replacement funding and \$921 per pupil in supplementary tax relief for a total of \$1,513 in combined funding from Act 388. With a modified minimum guarantee of \$600 per pupil, the district would lose all but \$8 per pupil of its supplementary tax relief.

The estimated additional state budgetary impact of Option A is \$4.4 million. In other words, this approach would require an additional \$4.4 million beyond the 2011-12 Act 388 supplementary funding level of \$20.4 million, for a new total of \$24.8 million. This estimated fiscal impact assumes full implementation of Option A in one year; however, funds could be phased in and out over several years to minimize budget disruption at the school district and state budget level.

Table 8. Option B: Estimated Change in Act 388 Supplemental Tax Relief

Gaining	Marion 2
Anderson 2*	Marion 7
Anderson 3*	Orangeburg 3*
Barnwell 19	Orangeburg 4*
Barnwell 29	Orangeburg 5*
Cherokee*	Sumter*
Chester	Union
Chesterfield*	Williamsburg
Clarendon 2	Retaining
Clarendon 3	Abbeville
Colleton	Allendale
Darlington*	Bamberg 1
Dillon 3	Bamberg 2
Dillon 4	Barnwell 45
Florence 2*	Calhoun
Florence 3*	Clarendon 1
Florence 4*	Fairfield
Florence 5*	Hampton 1
Greenwood 51*	Hampton 2
Laurens 55*	Jasper
Laurens 56*	Lee
Lexington 2*	Marlboro
Lexington 4*	McCormick
Marion 1	Saluda

*1st time recipient

Option B: Equitable Distribution with Hold Harmless

Equitable Distribution Option B combines Option A's minimum guarantee of \$600 per pupil in total Act 388 tax relief with a hold harmless provision that prevents any school districts from losing their current Act 388 supplemental funding, at least in the first year. The estimated additional state budgetary impact of Equitable Distribution Option B is \$14 million.

With the guaranteed minimum per pupil at \$600, 31 school districts would gain supplemental funding per pupil over the current distribution, the same as in Option A. However, with the hold harmless provision included, no districts would lose their current supplemental revenue in the first year (Tables 8 and 9). Under Option B, 46 of 83 school districts would receive supplemental funding at an average level of \$221 per pupil at 2011-12 funding levels. Act 388 tax replacement funding would average \$450 per pupil in these 46 districts, with combined funding at \$671 per pupil.

For example, under Option B, Anderson School Districts 2 and 3 would be first time recipients of supplemental funds—\$56 per pupil and \$232 per pupil—the same as in Option A. Under Option B these two districts would receive combined Act 388 tax relief of \$600 per pupil. However, the Calhoun County School District, a losing district under Option A, would retain its \$921 per pupil in supplemental funding because of Option B's hold harmless provision. Appendix A-4 contains detail on all school districts affected by implementation Option B.

Option B's hold harmless provision raises the price tag considerably. The additional first year cost to the state of implementing a modified minimum guarantee using Option B is estimated at \$14 million based on 2011-12 funding levels. With the hold harmless provision included, Option B would require a total outlay of Act 388 supplemental funding of \$34.4 million. This outlay would amount to a 69 percent increase over the 2011-12 level of \$20.4 million.

If there is a perceived need for a transition period for those districts currently receiving more than the state median per pupil in combined Act 388 funding, the hold harmless provision could be combined with a phase-out of excess supplemental funding per pupil. For example, under Option B, there are 15 districts that would receive supplemental funding but have over \$600 per pupil in combined Act 388 tax relief, based on 2011-12 funding levels. The excess could be reduced over a period of up to five years until their appropriation was based on the same formula as other school districts. In this example, a five year phase out of the hold harmless provision would reduce the cost of Option B by a cumulative \$1.9 million per year. If implementation of a modified minimum guarantee for Act 388 includes a hold harmless provision, that provision should have an expiration period after which all districts are treated in a uniform manner in terms of state aid.

Table 9. Option B: Estimated Outcomes 2011-12

Minimum guarantee	\$600 per pupil
Net state budget increase required	+\$14.0 million
Districts with supplemental tax relief	46
Average tax replacement	\$450 per pupil
Average supplemental tax relief	\$221 per pupil
Average total Act 388 funding	\$671 per pupil
Pupils	155,816
Gaining Districts	31
1st time recipients	18
Prior recipients	13
Budget increase required	+\$14.0 million
Losing Districts	0
Retaining all original funding	15
Budget decrease required	\$0 million

Note: Example based on 2011-12 funding levels.

Option C: Revenue Neutral

Revenue Neutral Option C would establish a minimum guarantee of \$567 per pupil in combined Act 388 tax relief for all districts by redistributing the amount of supplemental funding available under current law. The estimated additional state budgetary impact of Revenue Neutral Option C is zero.

Under Option C, Act 388 supplemental funding would be redistributed among districts with nothing added to the pot. In 2011-12 this amount was \$20.4 million, which would have allowed a modified minimum guarantee of \$567 per pupil for all districts from Act 388 tax replacement and supplemental funds combined (Tables 10 and 11). The average district receiving supplemental tax relief under Option C would have \$401 per pupil in tax replacement funds, \$138 per pupil in supplemental tax relief, and \$538 per pupil in combined Act 388 funding.

In this example, school districts currently receiving less than this modified minimum guarantee of \$567 per pupil in combined Act 388 funding per pupil—replacement plus supplemental—would gain supplemental funding up to this new minimum guarantee. Districts with combined Act 388 funding above the minimum guarantee per pupil would lose their excess supplemental funding.

For example, with a smaller modified minimum guarantee, Anderson School Districts 2 and 3 would still be first time recipients of supplementary tax relief, but at a slightly lower level. Anderson 2 would receive \$23 per pupil in supplemental funds and Anderson 3 would receive \$199 per pupil, less than the \$56

Table 10.
Option C: Estimated Change
in Act 388 Supplemental Tax
Relief

Gaining	Losing
Anderson 2*	Abbeville
Anderson 3*	Allendale
Cherokee*	Bamberg 1
Chester	Bamberg 2
Chesterfield*	Barnwell 19
Clarendon 2	Barnwell 29
Clarendon 3	Barnwell 45
Colleton	Calhoun
Darlington*	Clarendon 1
Dillon 3	Fairfield
Dillon 4	Hampton 1
Florence 2*	Hampton 2
Florence 3*	Jasper
Florence 4*	Lee
Florence 5*	Marion 7
Greenw'd 51*	Marlboro
Laurens 55*	McCormick
Laurens 56*	Saluda
Lexington 2*	Union
Marion 1	
Marion 2	
Orangeburg 3*	
Orangeburg 4*	
Williamsburg	

*1st time recipient

per pupil and \$232 per pupil they would receive under Options A and B. But instead of retaining some (Option A) or all (Option B) of its supplemental tax relief, Calhoun County School District would lose it under Option C. The district had \$592 per pupil in tax replacement funding in 2011-12, more than Option C's minimum guarantee of \$567 per pupil in combined Act 388 funding.

Likewise, Lexington School District 4, a first time recipient of supplemental tax relief under Options A and B and also a poor district, would receive no supplemental funds under Option C. That district's tax replacement funding of \$586 per pupil exceeds Option C's minimum guarantee of \$567 per pupil. Appendix A-5 contains detail on all districts affected by Option C.

Option C would be revenue neutral in terms of the current level of supplemental funding distributed from the Homestead Exemption Fund. In subsequent years, the budgetary impact would depend on the legislature's choice of a per pupil figure for the minimum guarantee.

Table 11. Option C: Estimated Outcomes 2011-12

Minimum guarantee	\$567 per pupil
Net state budget increase required	\$0
Districts with supplemental tax relief	39
Average tax replacement	\$401 per pupil
Average supplemental tax relief	\$138 per pupil
Average total Act 388 funding	\$538 per pupil
Pupils	121,663
Gaining Districts	24
1st time recipients	15
Prior recipients	9
Budget increase required	+\$10.5 million
Losing Districts	19
Retaining some original funding	15
Losing all original funding	4
Budget decrease required	-\$10.5 million

Note: Example based on 2011-12 funding levels.

Option D: Revenue Neutral, Poor Districts Only

If the sole purpose of Act 388's supplemental tax relief is to aid poor school districts, then it could be targeted to those districts only. Option D redistributes the current level of Act 388 supplemental funds to poor school districts only.

Unlike the other three approaches, Option D does not provide a minimum guarantee per pupil of Act 388 tax replacement plus supplemental tax relief to all school districts. Instead, it guarantees a fixed amount of supplemental tax relief per pupil to poor school districts only. The fixed amount of supplemental funding per pupil distributed in any given year would be determined by the amount of funding available and the number of pupils in the qualifying districts. A district's level of tax replacement funding per pupil would not affect the amount of supplemental funding it would receive under this approach to a modified minimum guarantee.

Poor school districts receiving supplemental funding under current law would gain or lose some funding, depending on their current level of funding per pupil. Districts currently receiving supplemental tax

relief but not meeting the low assessed value per pupil criterion to be designated as poor would lose that funding (Tables 12 and 13).

Table 13. Option D: Estimated Outcomes 2011-12

Minimum guarantee	\$386 per pupil
Net state budget increase required	\$0
Districts with supplemental tax relief	20
Average tax replacement	\$561 per pupil
Average supplemental tax relief	\$386 per pupil
Average total Act 388 funding	\$947 per pupil
Pupils	52,715
Gaining Districts	18
1st time recipients	8
Prior recipients	10
Budget increase required	+\$16.1 million
Losing Districts	18
Retaining some original funding	2
Losing all original funding	16
Budget decrease required	-\$16.1 million

Note: Example based on 2011-12 funding levels.

If the funds were evenly redistributed per pupil, the \$20.4 million in Act 388 supplemental funds for 2011-12 would provide \$386 per pupil to the 20 poor school districts. This amount would be in addition to any tax replacement funding from Act 338 that they receive. Under Option D, 18 of the 20 poor school districts would get more supplemental tax relief per pupil than under current law. Eight of these districts would be receiving supplemental funding for the first time. Only two poor districts would see a reduction in this funding per pupil over their current distribution: Bamberg School District 1 and Denmark-Olar School District 2 of Bamberg County.

Under Option D, Anderson School District 2 would receive much more supplemental tax relief than it would under Options A, B, or C. As a poor district, Anderson 2 would receive \$386 per pupil in supplemental tax relief, the same amount per pupil as the other 19 poor school districts. With tax replacement funding of \$544 per pupil in 2011-12, Anderson 2's combined Act 388 tax relief total would be \$930 per pupil, a much larger amount than the \$600 per pupil it would receive under Options A and B or the \$567 per pupil under Option C. On the other hand, Anderson School District 3 would no longer qualify for supplemental tax relief under Option D because it is not defined as poor, despite its relatively low tax replacement funding of \$368 per pupil.

Five poor school districts would have combined Act 388 funding exceeding \$900 per pupil under Option D: Anderson 2 (\$930 per pupil), Bamberg 2 (\$914 per pupil), Florence 1 (\$1,254 per pupil), Lexington 4 (\$973 per pupil), and Spartanburg 3 (\$1,021 per pupil). In contrast, school districts not meeting the definition of poor would receive no supplemental tax relief under Option D, despite low levels of tax replacement funding. For example, Colleton, Union and Williamsburg County School Districts are not considered poor in this report but all receive less than \$300 per pupil in Act 388 tax replacement funding. The average poor district would receive \$947 per pupil in Act 388 funding under Option D, \$561

Table 12.
Option D: Estimated Change
in Act 388 Supplemental Tax
Relief

Gaining	Losing
Anderson 2*	Abbeville
Barnwell 19	Allendale
Barnwell 29	Bamberg 1
Barnwell 45	Bamberg 2
Clarendon 3	Calhoun
Dillon 3	Chester
Dillon 4	Clarendon 1
Florence 1*	Clarendon 2
Florence 2*	Colleton
Florence 3*	Fairfield
Florence 5*	Jasper
Gr'wood 51*	Lee
Hampton 1	Marion 7
Hampton 2	Marlboro
Lexington 4*	McCormick
Marion 1	Saluda
Marion 2	Union
Sp'burg 3*	Williamsburg

*1st time recipient

per pupil in tax replacement funds and \$386 per pupil in supplemental tax relief. Appendix A-6 contains detail on all school districts affected by Option D.

The estimated additional state budgetary impact of Revenue Neutral Option D is zero. However, the budgetary cost of supplemental funding could be adjusted in future years for inflation and growth in the number of pupils in the qualifying districts.

Final Thoughts on Implementing a Modified Minimum Guarantee

The four possible approaches to implementing a modified minimum guarantee for tax relief under Act 388 of 2006 all would improve equity in the distribution of the law's minimum guarantee of supplemental tax relief to school districts in South Carolina. Each approach would eliminate the uneven benefits caused by the current law, namely, the very large amounts of Act 388 supplemental tax relief per pupil received by some districts with low student enrollments, and the lack of supplemental tax relief to small, poor school districts that are part of larger, multidistrict counties (Table 14). But each option also has some drawbacks as well.

Options A, B, and C generate lower levels of supplemental tax relief per pupil for the average receiving district than the current law. But the number of districts receiving supplemental tax relief increases from 28 under current law to between 39 and 46 districts under these three options. This is an increase of between 39 percent and 64 percent in the number of school districts benefiting from these funds. And while a number of school districts would lose part or all of the supplemental tax relief they currently receive, a redistribution of Act 388's supplemental tax relief would increase total Act 388 funding per pupil to districts with relatively low tax replacement funding under current law. Option D benefits poor school districts—however they are defined—but provides no aid to other districts with low levels of tax replacement funding.

Table 14. Act 388 Funding Per Pupil in the Average District Receiving Supplemental Tax Relief, By Approach to Implementing a Modified Minimum Guarantee

Act 388 Tax Relief	Current Law	Option A	Option B	Option C	Option D
Tax replacement	\$401 per pupil	\$434 per pupil	\$450 per pupil	\$401 per pupil	\$561 per pupil
Supplemental	\$308 per pupil	\$166 per pupil	\$221 per pupil	\$138 per pupil	\$386 per pupil
Act 388 combined	\$709 per pupil	\$600 per pupil	\$671 per pupil	\$538 per pupil	\$947 per pupil
Districts w/ supplemental tax relief	28 districts	43 districts	46 districts	39 districts	20 districts

Conclusion

South Carolina is a very diverse state in terms of wealth and poverty and in terms of urban, suburban and rural areas. Those differences are reflected in the range of sizes and taxable wealth of the state's 83 school districts. Legislation that affects the distribution of state funds among school districts has to take these differences into account.

The authors of Act 388 of 2006 appear to have designed the supplemental funding aspect of the law with the best of intentions, which was to ensure that districts that receive very little from the tax replacement part of Act 388 funding distribution would receive some additional funding. However, the result was a funding distribution that missed as many targets as it hit.

First, the funds should have been distributed by school district, not county. School districts are separate local governments with a separate relationship to the state. Some school districts report to their counties in fiscal matters, but most do not. Furthermore, a county's tax base may be distributed very unevenly among its school districts (in a multi-district county).

Defining "poor" in terms of the district's tax base per pupil relative to the state median, we found that Act 388 supplemental funds flowed to 28 school districts in 2011-12, of which 12 were poor by our definition and 16 were not. Eight school districts that were poor by our definition received no supplemental funding in this year. All of those eight districts were located in counties with multiple school districts: Anderson, Florence, Greenwood, Lexington, and Spartanburg counties. In part, this flawed distribution was a result of specifying a guaranteed amount per county rather than school district. There are poor school districts in multi-district counties where the need is just as great as it is in some of the 12 poor districts that received supplemental funding.

Second, if the intent of Act 388's supplemental funding provision was to help students in poorer districts, the funds should have been distributed on the basis of the number of pupils. Funding per pupil in 2011-12 ranged from \$1,740 in McCormick to only \$27 in Chester. Eight poor school districts received no supplemental tax relief at all. Under current law, the amount of supplemental funding bears no relationship to the ability of the district to raise its own funds from the property tax based on its assessed valuation per pupil.

This report does not address the merits of Act 388 itself, only its supplemental tax relief provision. We believe that the observed pattern of distribution of these funds does not reflect the legislative intent or desire to provide some additional support for public education in poorer districts. We also believe that it is possible to correct that distribution in ways that are more equitable with little or no increase in cost to the state.

Four possible solutions are presented in this report, all of which involve per pupil distribution to school districts rather than a flat dollar guarantee to the sum of school districts in a county. Under Options A and B, all school districts would receive an equitable minimum guarantee of combined Act 388 tax replacement and supplemental funding. Option A presents a distribution that guarantees all districts \$600 per pupil, which was about the state median per pupil in Act 388 tax replacement funding in 2011-12. This option would have cost the state an additional \$4.4 million in 2011-12. If the school districts currently receiving supplemental funding were to be held harmless, at least initially, the additional cost would rise to \$14 million under Option B.

Under Options C and D, the current level of funds could be distributed on the basis of revenue neutrality, with the per pupil guarantee determined by what available funds could support. Option C

would reduce Option A and B's \$600 per pupil minimum guarantee only slightly to \$567 per pupil without a hold harmless provision. Finally, the current level of supplemental funding could be shared among all qualifying poor districts. Option D would decrease the total number of districts receiving supplemental funding but increase the amount of supplemental revenue per pupil in most receiving districts.

In addition to offering some corrective to the distribution of supplemental funds, there are some broader useful lessons to be learned from this experience for future distributional issues. Targeted assistance of any kind needs to be based on the level of need (in this case, the gap in local resources or assessed value per pupil) between districts and the number of people affected (in this case, pupils).

Decisions also must be made about whether targeted assistance is an entitlement, available to all who qualify regardless of budgetary costs (in this case, guaranteeing the state median distribution per pupil), or whether there is a cap of some kind on the amount, which determines the distribution per individual. Act 388's supplemental funding cap was based on existing levels of expenditure, namely \$2.5 million per county. Any targeted aid that is based on some relevant criteria needs to be designed in ways that: 1) balance the need to contain cost by controlling the amount of the guarantee per person, and 2) balance the need to provide adequate funds to accomplish the purpose of the aid.

We hope that this discussion of the flaws in and possible solutions for the Act 388 minimum guarantee has provided a useful guide to policymakers addressing any future distribution of state funds among individual and local political entities.

APPENDICES

A-1. Supplemental Act 388 Tax Relief to Qualifying School Districts, 2007-08 to 2011-12

A-2. SC School Districts Qualifying for Act 388 Supplemental Tax Relief under Current Law:
Poor and Non-Poor Districts

A-3. Estimated Change in Act 388 Funding per Pupil: Modified Minimum Guarantee Option A

A-4. Estimated Change in Act 388 Funding per Pupil: Modified Minimum Guarantee Option B

A-5. Estimated Change in Act 388 Funding per Pupil: Modified Minimum Guarantee Option C

A-6. Estimated Change in Act 388 Funding per Pupil: Modified Minimum Guarantee Option D

Appendix A-1
Act 388 Supplemental Tax Relief to Qualifying School Districts, 2007-08 to 2011-12

District	2007-08	2008-09	2009-10	2010-11	2011-12
Abbeville	\$1,156,245	\$1,041,276	\$886,276	\$848,248	\$764,543
Allendale	2,182,411	2,127,738	2,050,033	2,031,592	1,992,971
Bamberg 1	1,102,824	1,030,954	956,584	987,819	931,149
Bamberg 2	627,407	619,184	578,752	519,915	514,995
Barnwell 19	316,676	272,037	238,317	231,078	203,942
Barnwell 29	342,510	324,958	292,842	276,726	241,860
Barnwell 45	946,535	851,783	708,203	679,255	628,985
Calhoun	1,729,305	1,670,422	1,588,582	1,567,583	1,521,210
Chester	797,755	612,848	352,019	285,811	140,416
Chesterfield	730,569	447,053	74,590	0	0
Clarendon 1	205,073	169,195	126,136	115,034	89,412
Clarendon 2	689,641	585,626	432,762	394,051	313,627
Clarendon 3	278,077	235,339	173,696	159,079	126,743
Colleton	1,543,744	1,335,341	1,032,787	957,447	791,628
Dillon 1	182,777	146,837	105,845	95,974	n.a.
Dillon 2	727,066	601,863	430,631	391,840	n.a.
Dillon 3	331,455	282,151	205,810	182,119	141,875
Dillon 4	n.a.	n.a.	n.a.	n.a.	370,657
Edgefield	661,108	27,738	0	0	0
Fairfield	555,883	326,831	172,101	134,114	52,640
Hampton 1	1,160,832	1,087,496	964,182	943,114	879,314
Hampton 2	518,270	461,113	406,573	384,244	354,934
Jasper	1,087,771	894,020	736,688	697,363	609,941
Lee	2,095,436	2,009,707	1,888,767	1,859,850	1,798,308
Marion 1	612,474	507,253	378,543	344,075	268,386
Marion 2	402,402	344,607	244,614	223,261	172,286
Marion 7	158,707	130,136	91,656	81,252	64,677
Marlboro	1,775,140	1,608,243	1,385,252	1,330,503	1,212,412
McCormick	1,452,723	1,424,879	1,383,536	1,373,407	1,351,706
Saluda	1,538,944	1,484,513	1,383,445	1,357,757	1,300,844
Union	1,936,163	2,346,407	2,127,432	2,074,074	1,957,797
Williamsburg	2,211,499	2,030,110	1,766,802	1,704,002	1,572,943
Total	\$30,057,421	\$27,037,660	\$23,163,457	\$22,230,587	\$20,370,201

Sources: SC Dept. of Revenue, SC Dept. of Education. Note: Distributions to multiple districts within a single county calculated by authors using fiscal year 135 day average daily membership.

Appendix A-1, continued
 Act 388 Supplemental Tax Relief per Pupil to Qualifying School Districts, 2007-08 to 2011-12

District	2007-08	2008-09	2009-10	2010-11	2011-12
Abbeville	\$339	\$330	\$288	\$281	\$252
Allendale	1,412	1,415	1,346	1,423	1,472
Bamberg 1	731	716	672	699	658
Bamberg 2	731	716	672	699	658
Barnwell 19	380	346	296	287	267
Barnwell 29	380	346	296	287	267
Barnwell 45	380	346	296	287	267
Calhoun	1,085	1,061	972	956	921
Chester	140	110	66	54	27
Chesterfield	94	58	10	0	0
Clarendon 1	225	194	145	134	108
Clarendon 2	225	194	145	134	108
Clarendon 3	225	194	145	134	108
Colleton	256	224	172	163	135
Dillon 1	214	178	128	117	n.a.
Dillon 2	214	178	128	117	n.a.
Dillon 3	214	178	128	117	90
Dillon 4	n.a.	n.a.	n.a.	n.a.	90
Edgefield	168	7	0	0	0
Fairfield	173	107	58	47	19
Hampton 1	439	415	385	387	368
Hampton 2	439	415	385	387	368
Jasper	356	283	233	228	195
Lee	858	835	800	839	837
Marion 1	215	185	139	128	101
Marion 2	215	185	139	128	101
Marion 7	215	185	139	128	101
Marlboro	390	366	317	316	293
McCormick	1,643	1,660	1,679	1,728	1,740
Saluda	743	725	668	660	625
Union	429	527	487	490	467
Williamsburg	418	396	353	359	349
Average	\$363	\$332	\$303	\$332	\$308
Median	356	330	292	287	267

Sources: SC Dept. of Revenue, SC Dept. of Education. Note: Distributions to multiple districts within a single county calculated by authors using fiscal year 135 day average daily membership.

Appendix A-2

Act 388 Supplemental Tax Relief under Current Law: Poor and Non-Poor Districts

	Poor School Districts					NOT Poor School Districts				
District QUALIFIES for Act 388 Supplemental Tax Relief	District	Pupils	Assessed Value PP	Poor District?	Act 388 Suppl. PP	District	Pupils	Assessed Value PP	Poor District?	Act 388 Suppl. PP
	Clarendon 3	1,172	\$7,728	Yes	\$108	Marlboro	4,145	\$15,660	No	\$293
	Barnwell 45	2,352	8,528	Yes	267	Marion 7	639	16,238	No	101
	Dillon 3	1,582	10,278	Yes	90	Lee	2,148	16,477	No	837
	Bamberg 1	1,415	11,944	Yes	658	Union	4,192	16,879	No	467
	Barnwell 29	904	12,165	Yes	267	Clarendon 2	2,900	17,111	No	108
	Barnwell 19	762	12,747	Yes	267	Allendale	1,354	17,294	No	1,472
	Dillon 4	4,132	12,958	Yes	90	Abbeville	3,028	18,002	No	252
	Marion 2	1,702	13,832	Yes	101	Chester	5,287	19,310	No	27
	Hampton 1	2,391	14,078	Yes	368	Williamsburg	4,508	19,509	No	349
	Marion 1	2,652	14,156	Yes	101	Saluda	2,083	20,430	No	625
	Bamberg 2	782	15,082	Yes	658	Colleton	5,882	29,214	No	135
	Hampton 2	965	15,425	Yes	368	Jasper	3,127	34,613	No	195
	Total/Average	20,811	\$12,395	Yes	\$232	Clarendon 1	827	39,458	No	108
						Fairfield	2,829	44,949	No	19
						Calhoun	1,653	51,365	No	921
						McCormick	777	56,606	No	1,740
						Total/Average	45,378	\$24,468	No	\$342
DOES NOT Qualify	District	Pupils	Assessed Value PP	Poor District?	Act 388 Suppl. PP	District	Pupils	Assessed Value PP	Poor District?	Act 388 Suppl. PP
	Greenwood 51	956	\$4,260	Yes	\$0	Total/Avg 47 dists	592,961	\$32,933	No	\$0
	Florence 5	1,409	8,809	Yes	0					
	Lexington 4	3,113	9,856	Yes	0					
	Florence 2	1,169	11,606	Yes	0					
	Spartanburg 3	2,840	13,282	Yes	0					
	Florence 3	3,477	13,741	Yes	0					
	Anderson 2	3,616	14,139	Yes	0					
	Florence 1	15,324	14,925	Yes	0					
	Total/Average	31,904	\$13,355	Yes	\$0					

Appendix A-3

Estimated Change in Act 388 Funding per Pupil: Modified Minimum Guarantee Option A

Current Law Funding Per Pupil, 2011-12					Option A Funding Per Pupil		
District	Poor	Replace- ment	Supple- mental	Act 388 Total	Supple- mental	Change +/-	Act 388 Total
Abbeville		\$537	\$252	\$789	\$63	-\$189	\$600
Allendale		374	1,472	1,846	226	-1,246	600
Anderson 2*	•	544	0	544	56	+56	600
Anderson 3*		368	0	368	232	+232	600
Bamberg 1	•	453	658	1,111	147	-511	600
Bamberg 2	•	528	658	1,186	72	-586	600
Barnwell 19	•	305	267	572	295	+28	600
Barnwell 29	•	325	267	592	275	+8	600
Barnwell 45	•	382	267	650	218	-50	600
Calhoun		592	921	1,513	8	-913	600
Cherokee*		530	0	530	70	+70	600
Chester		446	27	473	154	+127	600
Chesterfield*		370	0	370	230	+230	600
Clarendon 1		533	108	641	67	-41	600
Clarendon 2		395	108	503	205	+97	600
Clarendon 3	•	327	108	435	273	+165	600
Colleton		290	135	425	310	+175	600
Darlington*		438	0	438	162	+162	600
Dillon 3	•	309	90	399	291	+201	600
Dillon 4	•	363	90	452	237	+148	600
Fairfield		865	19	884	0	-19	865
Florence 2*	•	443	0	443	157	+157	600
Florence 3*	•	376	0	376	224	+224	600
Florence 4*		391	0	391	209	+209	600
Florence 5*	•	423	0	423	177	+177	600
Greenwood 51*	•	493	0	493	107	+107	600
Hampton 1	•	360	368	728	240	-128	600
Hampton 2	•	420	368	787	180	-187	600
Jasper		604	195	799	0	-195	604
Laurens 55*		478	0	478	122	+122	600
Laurens 56*		432	0	432	168	+168	600
Lee		327	837	1,164	273	-564	600
Lexington 2*		498	0	498	102	+102	600
Lexington 4*	•	586	0	586	14	+14	600
Marion 1	•	377	101	478	223	+122	600
Marion 2	•	399	101	501	201	+99	600
Marion 7		492	101	594	108	+6	600
Marlboro		311	293	603	289	-3	600
McCormick		1,478	1,740	3,217	0	-1,740	1,478
Orangeburg 3*		451	0	451	149	+149	600
Orangeburg 4*		285	0	285	315	+315	600
Orangeburg 5*		581	0	581	19	+19	600
Saluda		358	625	982	242	-382	600
Sumter*		591	0	591	9	+9	600
Union		129	467	596	471	+4	600
Williamsburg		206	349	555	394	+45	600

*School districts qualifying for Act 388 supplemental tax relief for the first time under Option A. Sources: SC Dept. of Revenue, SC Dept. of Education. Note: Example based on 2011-12 funding levels. Only districts with funding affected by Option A are included in this table.

Appendix A-4

Estimated Change in Act 388 Funding per Pupil: Modified Minimum Guarantee Option B

Current Law Funding Per Pupil, 2011-12					Option B Funding Per Pupil		
District	Poor	Replace- ment	Supple- mental	Act 388 Total	Supple- mental	Change +/-	Act 388 Total
Abbeville		\$537	\$252	\$789	\$252	\$0	\$789
Allendale		374	1,472	1,846	1,472	0	1,846
Anderson 2*	•	544	0	544	56	+56	600
Anderson 3*		368	0	368	232	+232	600
Bamberg 1	•	453	658	1,111	658	0	1,111
Bamberg 2	•	528	658	1,186	658	0	1,186
Barnwell 19	•	305	267	572	295	+28	600
Barnwell 29	•	325	267	592	275	+8	600
Barnwell 45	•	382	267	650	267	0	650
Calhoun		592	921	1,513	921	0	1,513
Cherokee*		530	0	530	70	+70	600
Chester		446	27	473	154	+127	600
Chesterfield*		370	0	370	230	+230	600
Clarendon 1		533	108	641	108	0	641
Clarendon 2		395	108	503	205	+97	600
Clarendon 3	•	327	108	435	273	+165	600
Colleton		290	135	425	310	+175	600
Darlington*		438	0	438	162	+162	600
Dillon 3	•	309	90	399	291	+201	600
Dillon 4	•	363	90	452	237	+148	600
Fairfield		865	19	884	19	0	884
Florence 2*	•	443	0	443	157	+157	600
Florence 3*	•	376	0	376	224	+224	600
Florence 4*		391	0	391	209	+209	600
Florence 5*	•	423	0	423	177	+177	600
Greenwood 51*	•	493	0	493	107	+107	600
Hampton 1	•	360	368	728	368	0	728
Hampton 2	•	420	368	787	368	0	787
Jasper		604	195	799	195	0	799
Laurens 55*		478	0	478	122	+122	600
Laurens 56*		432	0	432	168	+168	600
Lee		327	837	1,164	837	0	1,164
Lexington 2*		498	0	498	102	+102	600
Lexington 4*	•	586	0	586	14	+14	600
Marion 1	•	377	101	478	223	+122	600
Marion 2	•	399	101	501	201	+99	600
Marion 7		492	101	594	108	+6	600
Marlboro		311	293	603	293	0	603
McCormick		1,478	1,740	3,217	1,740	0	3,217
Orangeburg 3*		451	0	451	149	+149	600
Orangeburg 4*		285	0	285	315	+315	600
Orangeburg 5*		581	0	581	19	+19	600
Saluda		358	625	982	625	0	982
Sumter*		591	0	591	9	+9	600
Union		129	467	596	471	+4	600
Williamsburg		206	349	555	394	+45	600

*School districts qualifying for Act 388 supplemental tax relief for the first time under Option B. Sources: SC Dept. of Revenue, SC Dept. of Education. Note: Example based on 2011-12 funding levels. Only districts with funding affected by Option B are included in this table.

Appendix A-5

Estimated Change in Act 388 Funding per Pupil: Modified Minimum Guarantee Option C

Current Law Funding Per Pupil, 2011-12					Option C Funding Per Pupil		
District	Poor	Replace- ment	Supple- mental	Act 388 Total	Supple- mental	Change +/-	Act 388 Total
Abbeville		\$537	\$252	\$789	\$30	-\$223	\$567
Allendale		374	1,472	1,846	192	-1,280	567
Anderson 2*	•	544	0	544	23	23	567
Anderson 3*		368	0	368	199	199	567
Bamberg 1	•	453	658	1,111	113	-545	567
Bamberg 2	•	528	658	1,186	39	-619	567
Barnwell 19	•	305	267	572	262	-6	567
Barnwell 29	•	325	267	592	242	-26	567
Barnwell 45	•	382	267	650	184	-83	567
Calhoun		592	921	1,513	0	-921	592
Cherokee*		530	0	530	36	36	567
Chester		446	27	473	120	94	567
Chesterfield*		370	0	370	196	196	567
Clarendon 1		533	108	641	33	-75	567
Clarendon 2		395	108	503	171	63	567
Clarendon 3	•	327	108	435	239	131	567
Colleton		290	135	425	276	142	567
Darlington*		438	0	438	128	128	567
Dillon 3	•	309	90	399	258	168	567
Dillon 4	•	363	90	452	204	114	567
Fairfield		865	19	884	0	-19	865
Florence 2*	•	443	0	443	123	123	567
Florence 3*	•	376	0	376	190	190	567
Florence 4*		391	0	391	176	176	567
Florence 5*	•	423	0	423	144	144	567
Greenwood 51*	•	493	0	493	73	73	567
Hampton 1	•	360	368	728	207	-161	567
Hampton 2	•	420	368	787	147	-221	567
Jasper		604	195	799	0	-195	604
Laurens 55*		478	0	478	88	88	567
Laurens 56*		432	0	432	135	135	567
Lee		327	837	1,164	240	-597	567
Lexington 2*		498	0	498	69	69	567
Marion 1	•	377	101	478	189	88	567
Marion 2	•	399	101	501	167	66	567
Marion 7		492	101	594	74	-27	567
Marlboro		311	293	603	256	-37	567
McCormick		1,478	1,740	3,217	0	-1,740	1,478
Orangeburg 3*		451	0	451	115	115	567
Orangeburg 4*		285	0	285	281	281	567
Saluda		358	625	982	209	-416	567
Union		129	467	596	437	-30	567
Williamsburg		206	349	555	361	12	567

*School districts qualifying for Act 388 supplemental tax relief for the first time under Option C. Sources: SC Dept. of Revenue, SC Dept. of Education. Note: Example based on 2011-12 funding levels. Only districts with funding affected by Option C are included in this table.

Appendix A-6

Estimated Change in Act 388 Funding per Pupil: Modified Minimum Guarantee Option D

Current Law Funding Per Pupil, 2011-12					Option D Funding Per Pupil		
District	Poor	Replace- ment	Supple- mental	Act 388 Total	Supple- mental	Change +/-	Act 388 Total
Abbeville		\$537	\$252	\$789	\$0	-\$252	\$537
Allendale		374	1,472	1,846	0	-1,472	374
Anderson 2*	•	544	0	544	386	386	930
Bamberg 1	•	453	658	1,111	386	-272	840
Bamberg 2	•	528	658	1,186	386	-272	914
Barnwell 19	•	305	267	572	386	119	691
Barnwell 29	•	325	267	592	386	119	711
Barnwell 45	•	382	267	650	386	119	769
Calhoun		592	921	1,513	0	-921	592
Chester		446	27	473	0	-27	446
Clarendon 1		533	108	641	0	-108	533
Clarendon 2		395	108	503	0	-108	395
Clarendon 3	•	327	108	435	386	278	714
Colleton		290	135	425	0	-135	290
Dillon 3	•	309	90	399	386	297	696
Dillon 4	•	363	90	452	386	297	749
Fairfield		865	19	884	0	-19	865
Florence 1*	•	867	0	867	386	386	1,254
Florence 2*	•	443	0	443	386	386	830
Florence 3*	•	376	0	376	386	386	763
Florence 5*	•	423	0	423	386	386	809
Greenwood 51*	•	493	0	493	386	386	880
Hampton 1	•	360	368	728	386	19	746
Hampton 2	•	420	368	787	386	19	806
Jasper		604	195	799	0	-195	604
Lee		327	837	1,164	0	-837	327
Lexington 4*	•	586	0	586	386	386	973
Marion 1	•	377	101	478	386	285	764
Marion 2	•	399	101	501	386	285	786
Marion 7		492	101	594	0	-101	492
Marlboro		311	293	603	0	-293	311
McCormick		1,478	1,740	3,217	0	-1,740	1,478
Saluda		358	625	982	0	-625	358
Spartanburg 3*	•	635	0	635	386	386	1,021
Union		129	467	596	0	-467	129
Williamsburg		206	349	555	0	-349	206

*School districts qualifying for Act 388 supplemental tax relief for the first time under Option D. Sources: SC Dept. of Revenue, SC Dept. of Education. Note: Example based on 2011-12 funding levels. Only districts with funding affected by Option D are included in this table.

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